

**CONSOLIDATED RURAL
WATER DISTRICT NO. 3
SHAWNEE COUNTY, KANSAS**

**FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014**

And

INDEPENDENT AUDITOR'S REPORT

...KL...

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RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Board of Directors
Consolidated Rural Water District No. 3,
Shawnee County, Kansas
Topeka, Kansas 66610

We have audited the accompanying financial statements of the business-type activities of the Consolidated Rural Water District No. 3 as of and for the years ended December 31, 2015 and 2014, which comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the business-type activities of the Consolidated Rural Water District No. 3, Shawnee County, Kansas, as of December 31, 2015 and 2014, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

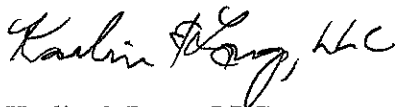
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Consolidated Rural Water District No. 3, Shawnee County, Kansas financial statements as a whole. The Schedule of Insurance in Force is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Karlin & Long, LLC
Certified Public Accountants

Lenexa, KS
January 27, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion of the financial performance of Consolidated Rural Water District No. 3, Shawnee County Kansas (the District), provides an overview of the financial activities of the District for the fiscal year ended December 31, 2015 and comparative data for the fiscal years ended December 31, 2015 and 2014. This information is presented in conjunction with the audited financial statements that follow this section.

During fiscal year 2003, the District adopted the financial reporting format required by the Governmental Accounting Standards Board's Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Financial Highlights

The District's net position increased by \$2,156. This was principally due to sales of benefit units, and other fees.

The District realized loss from operations of \$(132,519), after recognizing depreciation and amortization expense of \$163,697.

Total cash on hand at December 31, 2015 was \$1,165,110 which was a decrease of \$116,313 over the cash on hand on December 31, 2014.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the District.

The District's basic financial statements comprise two components: 1) basic financial statements, and 2) notes to financial statements.

Basic Financial Statements.

The financial statements present the financial picture of the District from the economic resource measurement focus using the accrual basis of accounting.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the District's net position has changed over the two most recent fiscal years.

All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing related to cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Notes to basic financial statements.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to basic financial statements can be found on pages 11 - 22 of this report.

The District's net position reflects its investment in capital assets (e.g., land, buildings, infrastructure, and equipment); less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its participating members (customers); consequently, these assets are not available for future spending.

The District's restricted net position represents the amount of assets that are reserved for the purpose of a bond reserve requirement, consequently, these assets are not available for future spending.

The unrestricted net position may be used to meet the District's ongoing obligations to its customers and creditors.

Capital Assets

The District's investment in capital assets for its business-type activities as of December 31, 2015 and 2014 was \$3,811,318 and \$3,869,924, respectively, (net of accumulated depreciation). This includes land, buildings, infrastructure and facilities and equipment.

Additional information on the District's capital assets can be found in Note 11 on pages 20-23 of this report.

Debt Administration

For the fiscal years ended December 31, 2015 and 2014, the District had long term debt outstanding of \$620,989 and \$841,790, respectively.

Additional information on the districts long term debt can be found in Note 9 to the basic financial statements

Economic Factors and Next Year's Budget and Rates

The Annual Budget outlines the staff's plan to carry out the District's mission of providing a safe and dependable supply of potable water for the public health and safety of Shawnee County.

As a product of an ongoing examination of how the District does its business, our budget seeks to assure that we have the necessary funds to accomplish our objectives, while insuring that our rates and charges remain as competitive as possible.

Continued growth within the District is anticipated. The potential of City annexation into our area is a factor that could have an impact upon our operations, and the Board of Directors continues to monitor and participate in that process.

Requests for Information

This financial report is designed to provide citizens, customers, investors, and creditors with a general overview of the District's finances, and to demonstrate the District's accountability for the money that it receives. If you have any questions about this report or desire any additional information, contact the general manager at 4926 SW Wanamaker Rd, Topeka, KS 66610, or phone (785) 862-3305.

CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

STATEMENTS OF NET POSITION

As of December 31, 2015 and 2014

	ASSETS	
	2015	2014
Current Assets		
Cash and cash equivalents	\$ 198,174	\$ 216,213
Short-term investments	939,436	1,037,710
Accounts receivable	74,465	70,518
Inventory	35,277	42,515
Prepaid expenses	24,991	22,227
Total current assets	1,272,343	1,389,183
Property, plant, and equipment, net	3,811,318	3,869,924
Bond Reserve	27,500	27,500
Total Assets	<u>\$ 5,111,161</u>	<u>\$ 5,286,607</u>

LIABILITIES AND NET POSITION

Current Liabilities		
Current maturity of long-term debt	\$ 112,021	\$ 98,128
Accounts payable and removal deposit	77,336	46,940
Other accrued liabilities	7,458	8,548
Total current liabilities	196,815	153,616
Long Term Debt, net of current maturities	620,989	841,790
Net Position		
Invested in capital assets	3,078,308	2,930,006
Restricted	27,500	27,500
Unrestricted	1,187,549	1,333,695
Total net position	4,293,357	4,291,201
Total Liabilities and Net Position	<u>\$ 5,111,161</u>	<u>\$ 5,286,607</u>

The notes to the financial statements are an integral part of this statement.

CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Revenues		
Water sales	\$ 754,252	\$ 767,224
City of Topeka water sales	29,765	26,916
Water sales RWD #8	<u>288,177</u>	<u>282,348</u>
Total operating revenues	1,072,194	1,076,488
Cost of water purchased	<u>603,295</u>	<u>587,317</u>
Gross profit	<u>468,899</u>	<u>489,171</u>
Operating Expenses		
Depreciation and amortization	163,697	69,039
Wages	154,056	178,717
Payroll taxes	13,590	15,169
Employee pension and benefits	18,524	14,601
Repairs	98,781	44,395
Insurance	15,360	19,279
Office expense	14,139	14,257
Professional fees	23,829	17,199
Board member expense	7,775	5,375
Water taxes	2,577	7,128
Engineering	59,405	5,499
Utilities	25,049	26,736
Miscellaneous	<u>4,636</u>	<u>6,084</u>
Total operating expenses	<u>601,418</u>	<u>423,478</u>
Income (loss) from operations	<u>(132,519)</u>	<u>65,693</u>

The notes to the financial statements are an integral part of this statement.

CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the years ended December 31, 2015 and 2014

	2015	2014
Non-Operating Revenues (Expense)		
Interest income	14,371	14,894
Other fees	70,006	14,192
Penalties/ late charges	7,784	7,443
Interest expense	(30,686)	(42,093)
Total non-operating income (expense)	61,475	(5,564)
Net Income (loss) Before Contributions	(71,044)	60,129
Capital Contributions		
Benefit units sold	32,000	33,750
Contributions in aid of construction	41,200	27,293
Total capital contributions	73,200	61,043
Change in Net Position	2,156	121,172
Net Position - Beginning of Year	4,291,201	4,170,029
Net Position - End of Year	<u>\$ 4,293,357</u>	<u>\$ 4,291,201</u>

The notes to the financial statements are an integral part of this statement.

CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Cash receipts from customers and reimbursements for services	\$ 1,068,247	\$ 1,082,292
Miscellaneous cash receipts		
Cash payments for goods and services	(821,066)	(709,955)
Cash payments to employees for services	<u>(186,170)</u>	<u>(208,487)</u>
Net cash provided by operating activities	<u>61,011</u>	<u>163,850</u>
Cash flows from investing activities		
Interest income	14,371	14,532
Change in bond reserve	-	-
Redemption of certificates of deposit	103,395	16,798
Purchase of certificates of deposit	<u>(2,585)</u>	<u>(125,000)</u>
Net cash provided by investing activities	<u>115,181</u>	<u>(93,670)</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(105,071)	(33,998)
Principal payment on long-term debt	(206,908)	(103,454)
Interest paid	(33,242)	(42,093)
Proceeds from sale of benefit units	32,000	33,750
Contributions in aid of construction	<u>41,200</u>	<u>27,293</u>
Net cash used in capital and related financing activities	<u>(272,021)</u>	<u>(118,502)</u>
Cash flows from non-capital financing activities		
Other income	<u>77,790</u>	<u>21,635</u>
Net increase in cash and cash equivalents	<u>(18,039)</u>	<u>(26,687)</u>
Cash and cash equivalents, beginning of year	<u>216,213</u>	<u>242,900</u>
Cash and cash equivalents, end of year	<u>\$ 198,174</u>	<u>\$ 216,213</u>

The notes to the financial statements are an integral part of this statement.

CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (132,519)	\$ 65,693
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	163,697	69,039
Changes in assets and liabilities		
Accounts receivable	(3,947)	5,804
Inventory	7,238	11,341
Prepaid expenses	(2,764)	(4,557)
Accounts payable	30,396	15,305
Accrued expenses	<u>(1,090)</u>	<u>1,225</u>
Net cash provided by operating activities	<u>\$ 61,011</u>	<u>\$ 163,850</u>

The notes to the financial statements are an integral part of this statement.

CONSOLIDATED RURAL WATER DISTRICT NO. 3
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Organization

Consolidated Rural Water District No. 3, Shawnee County (the District) was organized under Kansas law and is accounted for as an enterprise fund using the accrual basis of accounting. The District's purpose and objective is to acquire water and water rights, to build and acquire pipelines and for the purpose of furnishing water for domestic, agriculture, and/or other purposes. The District provides services to patrons in Shawnee County.

GASB Statement No. 34

In June 1999, GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The statement known as the "Reporting Model" statement, affects the way the District prepares and presents information.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments, including special purpose governments. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental information to make decisions and includes:

Management's Discussion and Analysis

GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analysis overview of the District's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

Statement of Net Position or Balance Sheet

This statement is designated to display the financial position of the District. Districts report all capital assets, including infrastructure. The net assets of the District will be broken down into three categories 1) invested in capital assets, net of depreciation; 2) restricted (if applicable); and 3) unrestricted.

CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

GASB Statement No. 34 (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues, expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Measurement focus refers to what is being measured. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. The statement of cash flows provides information about how the District meets the cash flow needs of its activities.

GASB Statement No. 20

Under GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, all proprietary funds continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds have the option of either choosing not to apply future FASB standards (including amendments of earlier pronouncements), or continuing to follow new FASB pronouncements (unless they conflict with GASB guidance). The District has chosen not to apply future FASB standards for proprietary funds.

Budget

The District prepares its budget for the fiscal year using the same basis of accounting as the financial statements. A comparison of actual to budget is not presented in the financial statements.

Cash and Cash Equivalents

For the purposes of the statement of cash flows the District defines cash and cash equivalents as demand deposits and certificates of deposit at banks with maturities of three months or less.

CONSOLIDATED RURAL WATER DISTRICT NO. 3
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

Certificates of Deposit

The certificates of deposit represent nonnegotiable certificates of deposit. The Certificates of deposit are recorded at cost because they are not affected by market rate changes.

Accounts Receivable

The District reads meters during the week of the 20th each month and the invoices are mailed out on the 1st of each month. Payments for water service are due the 20th day of the following month or will be subject to a late charge of 6% The District considers all accounts collectable.

Inventory

Inventories consist of primarily water meters, pipe, and line maintenance material. Inventories are stated at the lower cost or market. Cost is determined using the first in first out (FIFO) method

Property, Plant, and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repair which do not extend the life of the applicable assets are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The district does not have a formal capitalization policy. Depreciation and Amortization expense totaled \$163,697 and \$69,039 for the years ended December 31, 2015 and 2014, respectively.

Bond Reserve

As part of the Water Utility System Revenue Bonds, Series 2012, the District is required to maintain a bond reserve amount equal to 10% of the original principal amount.

CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

Benefit Units

Benefit units are rights that entitle the holder to water service. Benefit units for ¾" are presently sold for \$2,500 and installation fees of \$2,000 plus an additional \$1,200 if a road bore is required. The cost of 1" benefit units was increased to \$3,200 during the September 2014 meeting.

Aid in Construction

Aid in Construction represents contributions from the members for line extensions, and are included in the statement of activities

Net Position

The District's net position is classified as follows:

Invested in capital assets, net of accumulated depreciation – This represents the District's total investment in capital assets, net of accumulated depreciation.

Restricted net position – This includes amounts set aside for bond requirements.

Unrestricted net position – This includes resources derived from sales and services. These resources are used for transactions relating to providing sales and services and general operations of the District and may be used at the discretion of the governing board to meet current expense for any purpose.

Use of Estimates

The preparation of financial statements in compliance with generally accepted accounting principles requires managements to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The District is considered a tax-exempt entity and is not subject to income taxes at either the federal or state level. The District's payroll tax returns for the years ending 2015, 2014, and 2013 are subject to examination by the IRS, generally for three years after they were filed.

CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Deposits and Investments

Deposits

K.S.A. 9-1401 establishes the depositories which may be used by the district. The statute requires banks eligible to hold the district's funds have a main or branch bank in the county in which the district is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The district has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the district's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The district has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the district may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the district's deposits may not be returned to it. State statutes require the district's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2015 and 2014.

At December 31, 2015 and 2014, the District's carrying amount of deposits, including certificates of deposit, was \$1,165,110 and \$1,281,423 respectively, and the bank balance was \$1,168,751 and \$1,281,473 respectively, of which \$468,988 was covered by FDIC insurance. \$699,763 was collateralized by securities held in safekeeping pledged to the District.

CONSOLIDATED RURAL WATER DISTRICT NO. 3
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Deposits and Investments (continued)

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 3 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from prior years and settlements have not exceeded coverage in the past three years. See Schedule of Insurance in Force for details of insurance.

NOTE 4 – Compliance with Kansas Statutes

References made herein to the statutes are not intended as interpretation of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the water district. We noted no violations of Kansas statutes during the years ended December 31, 2015 and 2014. However, the District did have water quality violations in 2015.

NOTE 5 – Concentrations of Suppliers and Customers

The District acquires 100% of its water from the City of Topeka, Kansas. There are no other suppliers of water available for this district.

The District sells water to Rural Water District No. 8, Osage County, Kansas. In 2015 and 2014, the District sold 52,576,670 gallons and 53,783,000 gallons of water which accounted for 37% and 35% of the gallons sold, respectively.

NOTE 6 – Pension Plan

The District has a Savings Incentive Match Plan for Employees (SIMPLE) whereby, the eligible employees defer 5% of their compensation and the District contributes 3%. All contributions made under the SIMPLE plan are fully vested and non-forfeitable. For the years ended December 31, 2015 and 2014, the District contributed \$3,219 and \$4,349, respectively to the SIMPLE plan.

CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 7- Contracts

In August 1980, Rural Water District No. 6, Shawnee County, Kansas entered into an agreement with the City of Topeka, Kansas (City) to purchase water. As part of the agreement, the District paid the City \$794,700 as a connection charge. The agreement is for a forty year period.

In June 1991, Rural Water District No. 7, Shawnee County Kansas entered into an agreement with the City of Topeka, Kansas (City) to purchase water. As part of the agreement, the District paid the City \$69,500 as a connection charge. The City will provide water not to exceed 250 gallons per minute.

In August 2005, the City of Topeka entered into an agreement with Consolidated Rural Water District No. 3 Shawnee County, Kansas to continue to provide water under the above contracts.

In 2015 and 2014 the District purchased 149,385,201 gallons and 155,373,000 gallons of water, respectively, at an average rate of \$4.01 per thousand gallons.

NOTE 8 - Property, Plant, and Equipment

The following represents property, plant, and equipment of the District:

	<u>2015</u>	<u>2014</u>
Land	\$ 34,579	\$ 34,579
Distribution system	5,320,174	5,260,030
Building	580,835	579,680
Office equipemnt	20,206	20,206
Shop equipment	258,832	239,240
Connection fee	<u>874,224</u>	<u>874,224</u>
	7,088,850	7,007,959
Accumulated depreciation	<u>3,277,532</u>	<u>3,138,035</u>
Book value	<u>\$ 3,811,318</u>	<u>\$ 3,869,924</u>

CONSOLIDATED RURAL WATER DISTRICT NO. 3
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 8 –Property, Plant, and Equipment (continued)

The following represents a roll-forward of property, plant, and equipment as of December 31, 2015 and 2014:

	2014 Rollforward			Ending Balance
	Beginning Balance	Additions	Dispositions	
Land	\$ 34,579			\$ 34,579
Distribution system	5,274,523	29,507	44,000	5,260,030
Building	579,130	550		579,680
Office equipment	26,572	2,212	8,578	20,206
Shop Equipment	270,575	2,299	33,614	239,260
Connection Fee	874,224			874,224
	<u>\$ 7,059,603</u>	<u>\$ 34,568</u>	<u>\$ 86,192</u>	<u>\$ 7,007,979</u>
	2015 Rollforward			Ending Balance
	Beginning Balance	Additions	Dispositions	
Land	\$ 34,579			\$ 34,579
Distribution system	5,260,030	60,144		5,320,174
Building	579,680	1,155		580,835
Office equipment	20,206			20,206
Shop Equipment	239,260	43,772	24,200	258,832
Connection Fee	874,224			874,224
	<u>\$ 7,007,979</u>	<u>\$ 105,071</u>	<u>\$ 24,200</u>	<u>\$ 7,088,850</u>

CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – Property, Plant, and Equipment (continued)

Capitalization policies, depreciation methods, and estimated useful lives of capital assets are as follows:

Distribution lines	5,000	Straight Line	40 years
Meters	5,000	Straight Line	40 years
Shop Equipment	5,000	Straight Line	3-10 years
Office equipment	5,000	Straight Line	3-10 years
Purification	5,000	Straight Line	10-20 years
Furniture and Fixtur	5,000	Straight Line	3-10 years
Connection fee	5,000	Straight Line	40 years

NOTE 9 – Long Term Debt

In 2013, the District refinanced the Series 2005 Bonds with Water Utility System Revenue Bonds, Series 2012 totaling \$275,000 (\$140,000 outstanding at December 31, 2015) bearing interest at .50% to 1.50%. Annual principal payments range from \$45,000 to \$50,000 beginning October 1, 2013 through October 1, 2018. Interest payments begin April 1, 2013 and are paid semi-annually on April 1 and October 1. Revenues of the District have been pledged as collateral for the bonds.

During 2009, the District entered into an agreement with Silver Lake Bank for a closed ended credit facility of up to \$1,000,000 (\$593,010 outstanding at December 31, 2015). In February 2010, the construction loan was converted to into a 15 year term loan. The loan matures in June 2023, and has an interest rate of 1% above prime, with a floor of five percent. The proceeds of the loan were used for the construction of a 500,000 gallon water tower and line improvements

The portion of the debt schedule below related to the variable rate loan includes the current amortized interest. The interest rate is subject to change, per the loan agreement.

CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS**NOTE 9 – Long Term Debt (continued)**

Long term debt transactions were as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Series 2012 Bond	\$ 185,000		\$ 45,000	\$ 140,000
Construction Loan	754,918		161,908	593,010
	<u>939,918</u>	<u>-</u>	<u>206,908</u>	<u>733,010</u>

Principal and Interest payments for the debt for the next five years and in five year increments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 112,021	\$ 30,003	\$ 142,024
2017	120,450	26,125	146,575
2018	119,054	21,770	140,824
2019	77,843	17,306	95,149
2020	81,826	13,324	95,150
2021-2023	<u>221,816</u>	<u>14,522</u>	<u>236,338</u>
	<u>\$ 733,010</u>	<u>\$ 123,050</u>	<u>\$ 856,060</u>

Compliance With Other Finance-Related Legal and Contractual Provisions

The Water Utility System Revenue Bonds, Series 2012 requires a bond reserve account to be established in the amount equal to 10% of the original revenue bond issuance. The District has not established a separate account for this reserve but has set aside cash balance for the purpose of funding the reserve. The cash balance reserve for 2015 and 2014 was \$27,500 and \$27,500, respectively.

CONSOLIDATED RURAL WATER DISTRICT NO. 3
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – Long Term Debt (continued)

Debt Service Coverage Ratio

As part of the loan, the District is required to maintain a debt service coverage ratio of 1.25 and establish a loan reserve account in the amount of 10% of the initial principal. The District's debt service coverage ratio for 2015 and 2014 is calculated as follows:

	<u>2015</u>	<u>2014</u>
Income (loss) before capital contributions	\$ (71,044)	\$ 60,129
Interest expense	30,696	42,093
Depreciation and amortization	<u>163,697</u>	<u>69,039</u>
Available for debt service	123,349	171,261
Debt service	<u>46,875</u>	<u>47,327</u>
Debt service coverage ratio	<u><u>2.63</u></u>	<u><u>3.62</u></u>

NOTE 10 – Other Contracts

In August 1998, the District entered into a lease agreement with APT Kansas City, Inc. d/b/a as T-Mobile (ATP) for the purpose of leasing tank space for their telecommunication antennas. The lease term is for 5 years with 4 additional 5 year option periods. APT paid the District \$17,110 and \$13,688 in lease payments in 2015 and 2014, respectively, which is included with "Other Fees" on the Statement of Revenues, Expenses and Changes in Net Position.

In July 2015, the District entered into a lease agreement with Mercury Wireless Kansas, LLC for the purpose of leasing tank space for their telecommunication antennas. The lease term is for 5 years. Mercury Wireless paid the District \$5,100 and \$-0- in lease payments in 2015 and 2014, respectively, which is included with "Other Fees" on the Statement of Revenues, Expenses and Changes in Net Position.

CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 11 – Compensated Absences

For each employee of the District will earn paid vacation for each year of continuous employment as follows

After 1 year	One week (40 hours) each year
After 2 years	Two weeks (80 hours) each year
After 5 years	Three weeks (120 hours) each year

A full year of continuous employment means that as of your anniversary date each year, you can completed at least twelve continuous calendar months of employment. Vacation days may be accumulated up to a minimum of 20 days (160 hours)

Unused vacation will be paid provided the district receives a minimum of two weeks' notice of termination of employment from the employee.

Each employee of the district shall accumulate 1 day (8 hours) of sick leave per month beginning the first full month of employment. Sick leave benefits may be accumulated up to a maximum of 30 days (240 hours). Once the maximum amount of sick days has been accumulated by the employee no further days may be accrued. Sick leave benefits may also be used for medical related conditions such as immediate family members shall include your spouse, children, employee's parents, and employees spouse's parents.

NOTE 12 – Subsequent Events Review

Subsequent events for management's review have been evaluated through January 27, 2016. This is the date the financial statements were available to be issued.

CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

SUMMARY OF INSURANCE COVERAGE AND FIDELITY BONDS

As of December 31, 2015

<u>Property Covered</u>	<u>Coverage</u>	<u>Expires</u>
Commercial property:		
Building and personal property	\$ 1,263,773	1/1/2016
Water towers and equipment	2,340,000	
General Liability:		
Aggregate Limit -	1,000,000	1/1/2016
products/completed operations		
other than products/completed ops	1,000,000	
Personal and advertising injury	500,000	
Medical expense (per person)	5,000	
Commercial Auto:		
Liability insurance (per loss)	500,000	1/1/2016
Uninsured motorist	500,000	
Workmen's compensation:		
Bodily injury by accident	500,000	1/1/2016
Bodily injury by disease (per employee)	500,000	
Bodily injury by disease (policy limit)	500,000	
Public Employee Dishonesty:		
Per loss	200,000	1/1/2016
Inland Marine		
Miscellaneous Property	328,685	1/1/2016
Linebacker Coverage		
Each loss	1,000,000	1/1/2016
Aggregate	1,000,000	

...KL...

Karlin & Long, LLC
Certified Public Accountants

Consolidated Rural Water District #3,
Shawnee County, Kansas
4926 SW Wanamaker Rd
Topeka, KS 66610

Audit of financial statements for Consolidated Rural
Water District #3 Shawnee County, Kansas for the
year ended December 31, 2015 and 2014.

\$ 4,500

10115 Cherry Lane
Lenexa, Kansas 66220
(913) 829-7676

2200 Kentucky Avenue
Platte City, Missouri 64079
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...KL...
Karlin & Long, LLC
Certified Public Accountants

January 27, 2016

To the Board of Directors

Consolidated Rural Water District No. 3, Shawnee County, Kansas

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Consolidated Rural Water District No. 3, Shawnee County for the years ended December 31, 2015 and 2014, respectively. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 24, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Consolidated Rural Water District No. 3, Shawnee County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by Consolidated Rural Water District No. 3, Shawnee County during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Water District's financial statements were:

Management's estimate of the depreciation is based on the estimated useful life of an asset and allowance for doubtful accounts is based on the collectability of accounts receivable. We evaluated the key factors and assumptions used to develop the depreciation and allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

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Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 27, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Consolidated Rural Water District No. 3, Shawnee County's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Consolidated Rural Water District No. 3, Shawnee County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management Discussion and Analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Insurance in Force, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of Consolidated Rural Water District No. 3, Shawnee County, Kansas and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Karlin & Long, LLC
A Professional Association
Certified Public Accountants